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TO RUEHC/SECSTATE WASHDC IMMEDIATE 7048  
INFO RUCNCIS/CIS COLLECTIVE PRIORITY  
RUEHAK/AMEMBASSY ANKARA PRIORITY 0515  
RUEHBJ/AMEMBASSY BEIJING PRIORITY 1461  
RUEHBUL/AMEMBASSY KABUL PRIORITY 0164  
RUEAIIA/CIA WASHDC PRIORITY  
RHEFDIA/DIA WASHDC PRIORITY  
RUEKJCS/JOINT STAFF WASHDC PRIORITY  
RHMFISS/USCENTCOM INTEL CEN MACDILL AFB FL PRIORITY  
RUEHNO/USMISSION USNATO BRUSSELS BE PRIORITY  
RUEHVEN/USMISSION USOSCE PRIORITY 1840  
RUCNDT/USMISSION USUN NEW YORK PRIORITY 1223  
RUEKJCS/SECDEF WASHDC PRIORITY  
RUEHBS/USEU BRUSSELS PRIORITY  
RUEKJCS/OSD WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 03 BISHKEK 000435

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TAGS: [KCOR](#) [PGOV](#) [PREL](#) [KCRM](#) [EAID](#) [ECON](#) [KG](#)  
SUBJECT: BUSINESS AS USUAL - KYRGYZ PRIVATE SECTOR  
FRUSTRATED BY GOVERNMENT CORRUPTION

REF: A. 05 BISHKEK 1677  
[1](#)B. BISHKEK 132

Classified By: Ambassador Marie L. Yovanovitch, reasons 1.4 (b) and (d)

[1](#)1. (C) SUMMARY: Although corruption seemed to subside immediately after the March, 2005 overthrow of the Akayev government, local and foreign businesspeople now complain that government corruption is the same as under Akayev, or in some cases worse. Many blame below subsistence-level government salaries that force employees to demand bribes from businesspeople. Others note that they don't mind paying a bribe, but gripe about the fact that since the March "Tulip Revolution," it has become unclear whom to pay and how much. Clearly corruption is a serious impediment for American businesses and businesspeople due to the Foreign Corrupt Practices Act. Most of the local and many of the non-American foreign businesspeople, however, see corruption as just another cost of doing business in Kyrgyzstan. END SUMMARY.

CORRUPTION TAKES A (SHORT) VACATION . . .  
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[1](#)2. (C) Immediately following the March, 2005 "Tulip Revolution," then-Prime Minister Bakiyev spoke out decisively during televised speeches against corruption and promised that government corruption would no longer be tolerated. These statements actually may have had a positive (if temporary) effect. Local and foreign businesspeople noted that, in the months following the March events, corrupt behavior by Kyrgyz government officials appeared to subside.

[1](#)3. (C) Traffic police who routinely extorted money from businessmen driving expensive foreign automobiles began pulling over only those who actually broke the traffic rules, and then provided receipts for the fines. Importers reported that customs officials had stopped requesting bribes and goods were clearing customs in hours, rather than weeks. Stephen Ansel, the then-General Manager of the Bishkek Hyatt Regency, said his hotel's importers noticed a significant decrease in the time and fees needed to clear their shipments through customs.

. . . BUT COMES BACK WORSE THAN EVER

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14. (C) Unfortunately, government corruption levels quickly rebounded, and the administration's anti-corruption efforts (noted in reftel) proved hollow. Initially, government anti-corruption efforts appeared to focus on taking revenge against those businesses believed (in some cases, erroneously) to be associated with the Akayev family. Umar Shavurov, Executive Director of Kyrgyzstan's International Business Council (IBC) provided Pol/Econ Chief the results of a survey the IBC conducted in February 2006 of its members on government corruption. The survey results indicated that 17 percent of IBC member-respondents noted less corruption since the revolution, 39 percent reported no change, 13 percent reported slightly more corruption, and 30 percent noted much more corruption. Shavurov commented that some of the IBC members have complained about an increase in visits by tax and other government inspectors.

CORRUPTION PRESENT AT ALL LEVELS OF GOVERNMENT  
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15. (C) Although corruption is present at all levels of government, medium to small-scale businesses encounter corruption most when dealing with low-level bureaucrats. Shavurov told Pol/Econ Chief that IBC members most often experienced corruption when dealing with government officials who handle taxes, inspections, customs, and the provision of licensing. Ermek Niyazov, director of Ermex, a computer firm in Bishkek, noted that corrupt tax and customs officials cause him the largest amount of grief. He said that since those officials have the legal right to inspect every single

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fiscal transaction or every imported item, they often drag out the customs clearance or tax inspection process indefinitely until they are offered a bribe.

16. (C) Bermet Karabekova, Enterprise Development Specialist of USAID contractor Pragma, told the Embassy that the Kyrgyz tax and customs regulations are very complicated, and corrupt officials use the complexity to confuse or intimidate businesspeople. She also noted that the registration of a new business takes several months and often requires dozens of official certificates and licenses. She has heard of instances when corrupt officials will propose to streamline the process for a "fee." Many businesspeople will pay this bribe to save time.

LOW WAGES, LACK OF POLITICAL WILL FUEL CORRUPTION  
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17. (C) A principal cause of mid and low-level government corruption appears to be that salaries are too low to support a government employee's family without "enhancements." Omurbek Abdrakhmanov, President of the Bishkek Business Council, lamented the pervasiveness of official corruption. But he did not place blame on corrupt low-level official, whom he said had to find some way to feed his family. Abdrakhmanov blamed a bloated bureaucracy, which has not substantially changed since Soviet times, and low wages for creating a system that stifles business. Computer Company Director Niyazov echoed the view that bureaucratic positions need to be eliminated, but noted that increasing the salaries of many customs officials even to \$1,000 per month would have no effect since their illegal income is sometimes \$10,000 per month. He believes the only way to fight corruption is for the Kyrgyz government to demonstrate real political will to severely punish corrupt officials.

"INSTABILITY IS WORSE THAN CORRUPTION"  
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18. (C) Some local and non-American foreign businesspeople expressed dismay over the prevalence of government corruption, but they still plan to pay whatever bribe needs

to be paid. Shavurov noted that most IBC members felt that political instability, civil unrest, and the government's inability to protect a business' assets are greater risks to doing business than corruption. Abdrakhmanov also said that local businesspeople feared instability more than corruption, and in the end would pay a bribe if it would save them money or time. This attitude puts American investors at a disadvantage because they are subject to the U.S. Foreign Corrupt Practices Act, which criminalizes bribery. Large investors such as the Hyatt have enough political and financial clout to rebuff corrupt officials, yet smaller investors find it more difficult.

¶9. (U) The American Chamber of Commerce in Kyrgyzstan, created in January 2005, has grown from six dues-paying members to more than 45 in the last year. This steep growth is in part due to the fact that it has become more active in publicly speaking out against improper behavior of government officials. Its recently-developed website has an area where members can report government corruption. The Chamber has been directly involved in issuing open letters and organizing media events that have spoken out against issues ranging from harassment of American corporate officials to artificial delays of imports by customs officials.

¶10. (U) The European Union-funded International Business Council (IBC) of Kyrgyzstan is older, larger, and takes a much more conservative approach, preferring to issue policy papers and organize working groups on various issues, rather than directly criticize the government. Interestingly, Eduard Rausch, Chairman of the International Business Council, has also joined Amcham. Rausch joined after having been impressed with AmCham's effective advocacy on behalf of U.S.-owned tobacco fermenter Dymon Tobacco, which was experiencing problems with the tax authorities. David

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Larson, AmCham Director in Kyrgyzstan, told Pol/Econ Chief that other IBC members had joined Amcham for similar reasons.

COURAGE TO SPEAK OUT  
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¶11. (C) Although many local and foreign business leaders are uncomfortable speaking publicly against corruption, there is a greater willingness to protest via a business council. Yusuf Ugur, the president of Beta Stores, (Kyrgyzstan's largest supermarket) noted diplomatically that he has never had problems with present or past Kyrgyz leadership. (NOTE: his supermarket was completely gutted and partially burned during the looting of March 24, 2005, causing millions of dollars in damage. END NOTE.) However, he did admit that corruption and the present perception of political instability was a problem that did not encourage investment.

¶12. (C) COMMENT: Many local and foreign investors believe that corruption is a permanent part of the Kyrgyz investment landscape and are reluctant to stand up alone against corrupt officials. Business councils such as AmCham, the IBC, and Bishkek Business Council can provide cover and defense for businesses struggling with corruption. Initiatives such as the Millennium Challenge Threshold program, which encourage the government to make serious efforts to combat government corruption, can also serve to strengthen Kyrgyz political will to address structural problems that foster corruption within its government. END COMMENT.

YOVANOVITCH